

Facts for Consumers

Could
'Biz Opp'
Offers
Be Out
for Your
Coffers?



A-1 Pay phones. \$160K (thousand)
per year potential....Premium
locations.

Huge profits. Distribute candy mints,
part-time, full-time....Big \$\$\$. No
competition. Low investment.

Work 6 hours/week. Earn
45K+/year. Must sell!

It's easy to see why ads for business opportunities like these appeal to consumers looking to make extra money: They promise good pay for little effort. But, as many consumers who have answered these ads have learned and the Federal Trade Commission has repeatedly found, many business opportunity promotions are nothing but scams, taking consumers' money up front with no way to fulfill the promises. The consumer ends up losing — not making — extra money.

What can prospective business owners do to make sure this doesn't happen to them? First, they can do some homework, including getting pre-investment information in writing. Under the FTC Franchise Rule, most potential business purchasers have the right to receive information about the earnings potential and certain other details about a business opportunity. Most legitimate business opportunities won't hesitate to give this information, anyway.

Second, they can research other aspects of the business' performance. One way to do that is to interview *in person* other people who have bought into the program.

The Usual Suspects

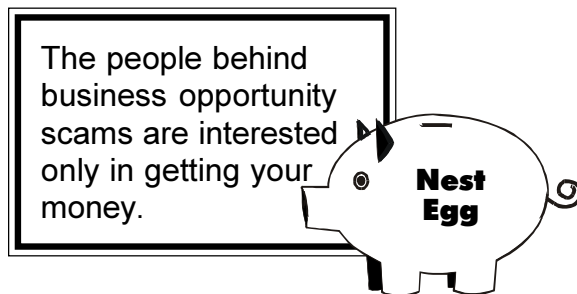
Spotting fraudulent business opportunities is no easy task, but it can be done. One tip-off may be the type of business opportunity being advertised. Fraud tends to show up more frequently in certain so-called "biz opps," such as vending machine and display rack operations, pay phones, medical billing services, and Internet-related business opportunities. Indeed, many illegal promotions deal with snack, soda, water and candy vending machines, and display rack sales of cigars, coffee, breath mints and greeting cards.

Typically, ads for phony business opportunities appear in the classified pages of daily and weekly newspapers and magazines, and online. They also are marketed in television infomercials and commercials. The ads often carry similar-sounding claims. They almost always promise good pay (\$160,000 a year in one case) in a short time period (weeks or months) with little effort. They trumpet an ideal work situation — that is, the ability to make money without the typical job constraints. They promote the fact that you can set your own hours, be your own boss and work from home.

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If the claims for a business opportunity sound too good to be true, chances are they aren't true. The people behind business opportunity scams are interested only in getting your money — not in helping you run a successful business. They may sell you a business opportunity with no intention of fulfilling their part of the deal. Or, they may mislead you about the earnings poten-



tial of a business, selling a phantom opportunity that has little chance of succeeding—for example, a business for which there is little or no market. They also may doom your chances of success by providing cheap or low-quality merchandise; poor quality equipment (such as defective pay phones and vending machines); or locations that get little foot traffic, like rural gas stations, out-of-the-way snack shops or stores in deserted strip malls.

While consumers are the main target of fraudulent business opportunities, legitimate businesses also may be victimized. Trying to evade the law, promoters of fraudulent business schemes may jump from one city to another, leaving in their wake unpaid bills for such services as newspaper ads, office rent, phone bills and mail delivery.

An Ounce of Prevention

Consumers can take steps to make sure that the business opportunity they're pursuing isn't going to cheat them out of their money. Here's how:

- Get all earnings claims *in writing*. Be sure the information includes the number and percentage of recent or current clients who have earned at least as much as the promoter claims. If the promoter hesitates or refuses to give the information in writing, find another business opportunity.
- Interview references provided by the promoter of the business opportunity. The FTC requires business opportunity promoters to give potential purchasers the names, addresses and phone numbers of at least 10 prior purchasers who live the closest to the potential purchaser. Talk to each prior purchaser *in person*, preferably where their business operates. This may help reduce your risk of being misled by "shills."
- Study the business opportunity's franchise disclosure document. Under the FTC Franchise Rule, most business opportunity promoters are required to provide this document to potential purchasers. It includes information about the company, including whether it has faced any lawsuits from prior purchasers or lawsuits alleging fraud.

- Contact the attorney general's office, state or county consumer protection agency and Better Business Bureau in the area in which the business opportunity promoter is based *and* where you live. Ask whether there's a history of unresolved complaints. Remember that a complaint record may indicate questionable business practices, but a lack of complaints doesn't necessarily mean the promoter and the business opportunity are without problems. Unscrupulous dealers often change names and locations to hide a history of complaints.



- If the business opportunity involves selling products from well-known companies, call the legal department of the company whose merchandise is being promoted. Find out whether the business opportunity and its promoter are affiliated with the company. Ask whether the company has ever threatened trademark action against the business opportunity promoter.
- Consult an attorney, accountant or other business advisor before you put any

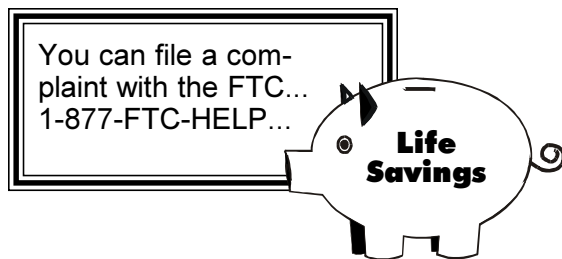
money down or sign any papers. Entering into a business opportunity can be costly, so it's best to have an expert check out the contract first. If the business opportunity promoter requires a deposit, ask your attorney to establish an escrow account where the deposit can be maintained by a third party until a deal is made.

Take the time to complete each of these steps. Promoters of fraudulent business opportunities are likely to apply high-pressure sales tactics to get you to buy in. If it's a legitimate business opportunity, it'll still be around when you're ready to decide.

Reporting Possible Fraud

If you suspect a business opportunity promotion is fraudulent, report it to:

- the state attorney general's office in the state where you live and in the state where the business opportunity promoter is based.



- your county or state consumer protection agency. Check the blue pages of the phone book under county and state government.

- the Better Business Bureau in your area and the area where the promoter is based.

You also can file a complaint with the FTC Consumer Response Center by calling toll-free 1-877-FTC-HELP (382-4357) or writing to Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Ave., N.W., Washington, DC 20580 or through the FTC's online complaint form at www.ftc.gov. Although the FTC cannot resolve individual problems for consumers, it can act against a company or individual if it sees a pattern of possible violations.

The FTC publishes free brochures on many consumer issues. For a complete list of publications, write for Best Sellers, Consumer Response Center, FTC, 600 Pennsylvania Ave., N.W., Washington, DC 20580. Or call toll-free 1-877-FTC-HELP (382-4357), TDD 202-326-2502.

Federal Trade Commission
Bureau of Consumer Protection
Office of Consumer and Business Education
1-877-FTC-HELP
www.ftc.gov

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